BILL ANALYSIS

Business & Financial Services Committee

HB 1871

Brief Description: Addressing credit unions' corporate governance and investments.

Sponsors: Representatives Ryu and Vick.

Brief Summary of Bill

- Makes various changes to provisions governing credit union boards of directors, supervisory committees, dividends, and investments.

Hearing Date: 2/11/15

Staff: David Rubenstein (786-7153).

Background:

Board of Directors.

A state-chartered credit union is governed by a board of directors consisting of between five and 15 members who may receive compensation from the credit union. There are two kinds of duties assigned to credit union boards: delegable and nondelegable. The board's nondelegable duties include setting the value of credit union shares, establishing policies under which credit union loans will be approved, managing membership policies, and other duties that credit union members require.

The board's delegable duties include:
- deciding membership applications;
- declaring dividends and setting interest rates on deposits;
- setting fees, if any, for credit union membership and other services of the credit union;
- determining the maximum amount of shares and deposits that a member may hold;
- determining the amount and terms of loans to members;
- establishing policies under which the credit union may borrow and invest; and
- approving the charge-off of credit union losses.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Supervisory Committee.

A supervisory committee monitors both the financial condition of the credit union and the decisions of the board. Members of the supervisory committee may be paid for their service, and they may receive nominal gifts, insurance coverage, and reimbursement for committee-related expenses. Compensation paid to credit union board members is governed by Department of Financial Institution rules.

Dividends.

A credit union may pay dividends to its members from the credit union's earnings after expenses and amounts required for reserves, or from amounts carried over from preceding periods.

Investment Authority.

A credit union may invest in any of 12 specified categories of investments, including:
- key person insurance policies;
- debt or equity issued by an organization owned by the Washington Credit Union League; and
- instruments issued by or to a credit union service organization, provided the amount invested does not exceed 1 percent of the credit union's assets.

Summary of Bill:

Various provisions affecting credit union corporate governance are changed or removed.

Board of Directors.

The nondelegable requirement that the board of directors set loan policies is removed.

A nondelegable duty to set policies governing the operation of the credit union is added.

The board's nondelegable duty to perform other duties that the credit union members may direct is eliminated.

The delegable duty to declare dividends is eliminated in favor of a duty to set the rate of dividends on shares and authorize payment of dividends on those shares.

Finally, the following delegable duties are struck:
- acting on membership applications;
- setting fees for membership and services;
- determining the amounts and terms of loans; and
- establishing policies under which the credit union may borrow and invest.

Supervisory Committee.

It is clarified that credit union supervisory committee members may receive nominal gifts, insurance coverage, and expense reimbursement regardless of whether they receive other compensation.

Dividends.

Dividends may be paid, instead of declared, from current undivided earnings after deduction of expenses and amount required for reserves. Reference to deduction of interest on deposits is struck.

Credit Union Investments.

Credit unions may invest capital in debt or equity issued by an organization owned by the Northwest Credit Union Association or its successor. Additionally, credit unions may invest in products relating to employee benefits.

The amount of its assets a credit union may invest in or loan to credit union service organizations is increased to 5 percent.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.